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TO RUEHC/SECSTATE WASHDC 7288
RUCNASE/ASEAN MEMBER COLLECTIVE
RUEHGG/UN SECURITY COUNCIL COLLECTIVE
RUEHBJ/AMEMBASSY BEIJING 1779
RUEHBY/AMEMBASSY CANBERRA 0989
RUEHKA/AMEMBASSY DHAKA 4791
RUEHNE/AMEMBASSY NEW DELHI 4541
RUEHUL/AMEMBASSY SEOUL 8080
RUEHKO/AMEMBASSY TOKYO 5641
RUEHCN/AMCONSUL CHENGDU 1385
RUEHCHI/AMCONSUL CHIANG MAI 1454
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RUCNDT/USMISSION USUN NEW YORK 1404
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TREASURY FOR OASIA: SCHUN

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SUBJECT: BURMA: PRODUCING NEW CARS WITH USED PARTS

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¶1. (SBU) Summary. Using import substitution policies, the Burmese Government has encouraged the development of a domestic car manufacturing sector since 2001. Currently, more than 400 small and medium-sized companies in Burma produce "new" unbranded jeeps and light trucks with used parts imported from Japan, China, Taiwan, and Malaysia. In 2007, companies produced more than 150,000 jeeps and light trucks, which sell for between 9 million and 15 million kyats (\$9,000-15,000) respectively. Instead of using assembly lines to produce cars quickly and efficiently, Burmese car factories employ manual laborers to make car and truck frames by hand and modify used parts to fit the vehicles, producing an average of 100 cars and trucks per month. Although the GOB banned the import of new vehicles in 2001, it continues to allow a foreign company, Japanese-owned Suzuki, which signed a joint venture agreement with the Ministry of Industry 2 in 1997, to produce cars locally. End Summary.

"New" Cars out of Old Parts

¶2. (SBU) The Burmese Government believes that a vibrant domestic car manufacturing industry is a sign of economic growth. Since 2000, the regime has encouraged local producers to manufacture cars, jeeps, and light trucks, even though many companies lack the technical experience, equipment, and parts necessary to do so. The government then banned the import of new cars in 2001 to enable the nascent industry to develop. However, instead of producing new cars, Burmese car manufacturers build "Franken-cars": cars built on locally-handmade chassis with a mixture of imported spare parts modified to fit the vehicle. It is normal to see a Burmese car or truck with a crudely painted "Toyota" or "Nissan" logo, comprised of parts from China, Japan, Korea, or Malaysia. In the restricted and overpriced Burmese market, these cars and trucks are considered new

and sell for between 9 million to 15 million kyat (\$9,000-15,000), depending on the model and the location of purchase.

13. (SBU) During the first five years of production, the Burmese Government allowed each local company to produce only 130 vehicles a year. Manufacturers could build and sell any type of vehicle, including cars, trucks, buses, and ambulances. As the demand for cars and light trucks increased, the government permitted companies to increase production of jeeps, buses, and light trucks. In 2007, more than 400 small and medium-sized car factories existed in Burma, producing approximately 150,000 vehicles a year. Approximately 75 percent of these cars were manufactured in Rangoon. According to unofficial estimates, manufacturers sold more than 120,000 cars and light trucks directly to the Burmese customers last year, up from approximately 80,000 in 2006. The military purchased almost 40 percent of these vehicles, manufacturers told us.

14. (SBU) Locally produced cars and trucks have a reputation for poor quality and remain outnumbered on the streets of Rangoon by clunky used cars from Thailand and Japan. U Aung Too told us that while his cars should last up to eight years, the owner would have to frequently repair or replace imported parts, which often are scarce on the market or are of poor quality. Local manufacturers do not offer guarantees on the quality of their vehicles nor offer service warranties.

15. (SBU) Although it encourages the growth of the local car manufacturing industry, the government also highly regulates it. According to U Aung Too, General Manager of Mai Tong Shan Star car factory in Taunggyi, the Burmese Government closely monitors the industry because it does not want local companies to illegally import foreign cars and pass them off as locally-made after slight modifications. In the past few years, the Ministry has confiscated cars that too closely resemble foreign cars, punished the manufacturer by either fining it or closing down its shop, and

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forced local manufacturers to follow a pre-approved model for cars and trucks. According to car manufacturers, only factories located in industrial zones can produce and sell cars and trucks. Officials from the Ministries of Industry 1 and 2 regularly inspect car factories before issuing car licenses; if a company is not properly registered, the Ministry will not issue a license.

Little FDI in Burma's Car Industry

16. (SBU) The Burmese Government practices import substitution to encourage the domestic production of cars, although it permits one foreign company to continue producing foreign cars in Burma. In 1997, the Ministry of Industry 2 inked a ten-year contract with Japanese-owned Suzuki Motors and First Myanmar Investment Company (FMI), establishing a joint venture worth \$6.7 million to produce Suzuki light trucks, Wagon-Rs, and motorcycles. Per the agreement, Suzuki maintained a 60 percent share of the company, the Ministry of Industry 2 had 30 percent, and private company FMI (owned by Serge Pun and Associates) owned 10 percent. Between 1997 and 2007, Suzuki Myanmar produced and sold more than 1,500 trucks and 1,000 Wagon-Rs.

The GOB and Suzuki Myanmar in January signed a contract extension for an additional ten years.

17. (SBU) According to FMI Managing Director Martin Pun, the joint venture did not start out well, with production far below market demand. Producing imported cars up to Japanese specifications was expensive and establishing factories with assembly lines took time, so the company did not turn a profit until 2003, he lamented. The 2001 import ban changed Burma's car market, increasing public demand for new cars - the only ones in town were Suzuki Wagon-Rs. Consequently, the price of the Suzuki Wagon-R more than doubled since 1997, from an initial asking price of initially set at 25 million kyat (\$25,000) to between 47 million and 53 million kyat (\$47,000-\$53,000), depending on the model. Under the new ten-year deal, Suzuki will expand production dramatically, from producing 168 cars and trucks and 780 motorbikes a year to 1,200 cars and trucks and 4,800 motorbikes by 2018. Pun explained that Suzuki Myanmar plans to produce 500 Wagon-Rs, 400 light trucks, and 1,000

motorbikes in 2008 for sale at their five dealerships in Rangoon.

Car Demand in 2008

¶8. (SBU) Although Pun believes that demand for Suzuki Wagon-Rs and light trucks will increase in the next few years, local car producers predict a downturn in the demand for local cars. U Aung Too told us that car manufacturers in Taunggyi have sold close to forty percent fewer cars since the fuel price hikes last August. One car manufacturer in Rangoon and four in Taunggyi closed in 2007, while others in Rangoon, Mandalay, and Taunggyi reduced operations because they were not making a profit.

¶9. (SBU) U ung Too explained that the market for branded vehicles (Suzukis and the few foreign cars that are imported each year) and locally-made cars and trucks were distinct. Those who can afford new cars or high-priced imported vehicles (only available to those well-connected who have car import licenses) will continue to buy them, but poorer Burmese can no longer afford to own their own vehicles because of higher fuel and maintenance costs. In past years, many Burmese would purchase cars, not to drive them, but because they would receive gas rations that they could sell on the black market for a profit. However, because of the high price of gas and recent government limitations on gas rations, from eight gallons a week to four gallons per week outside of Rangoon and Mandalay, owning a car is no longer profitable, he explained. Car producers in Taunggyi and Rangoon expect to produce approximately 100,000 vehicles in 2008, a 33 percent reduction from 2007 levels.

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Comment

¶10. (SBU) Less than 5 percent of Burma's 55 million people have cars, although local production of cars and trucks has made it easier for some of Burma's middle class to purchase vehicles. Nevertheless, owning a car is something that most Burmese only dream about. The regime touts car manufacturing as a sign of economic growth, but the real reason it encourages the expansion of the industry is so that it can purchase vehicles for the military at a fraction of the cost of imported cars and trucks. As the Burmese economy continues to deteriorate, local car manufacturers will sell fewer and fewer cars. Burma's auto industry will not become viable without major political and economic reforms that eliminate the military's mismanagement.

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